

# What Kind of Investor Are You?

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Do you like to follow the market during the day and keep a close eye on your stocks, buying and selling in response to the latest fluctuations?

Or do you prefer to buy and hold, trusting your stocks to advance over time while you focus on other areas of your life?

If you prefer the second, I have an investing system I think you'll be interested in.

It's based on the teachings of Benjamin Graham, the father of investing, and the long-term results are truly marvelous, averaging roughly 20% per year.

Of course, recent years for the average investor have been especially difficult; the S&P 500 today is no higher than it was near the end of 1998!

Yet this system is not average! It's thrived in comparison, returning a compound annual return of 13.2% since 1995 for the Wise Owl Model and 11.6% for the Classic Model. To put those returns into real figures, \$10,000 invested in the Wise Owl Model back in 1995 would be worth nearly \$59,000 today!

If those numbers sound attractive to you, especially for a system that requires so little work (and entails so little risk) let me give you a little background.

Benjamin Graham was born in London in 1894. (His original name was Grossbaum, but he changed it as a young man, the better to fit into the Wall Street environment.)

His parents moved to New York City when he was one year old. Graham was a brilliant student and won a scholarship to Columbia University. In 1914, he graduated second in his class, at age 20, and was invited to teach at the school. But he refused. His father had died, the family was poor, and Graham needed a larger income to support the family.

So he went to Wall Street and worked for the firm of Newburger, Henderson and Loeb for \$12 per week.

His early duties included being a runner, delivering securities and checks, writing descriptions of bond issues, and later writing the daily market letter of the firm. Before long, he began to analyze companies, and at the age of 26 he was promoted to full partner.

In 1923, he left to set up his own partnership, and in 1928 he began teaching investment classes at Columbia. Over time, working with former student David Dodd, the lessons of his classes were gathered into his first book, titled "Security Analysis," which was published in 1934.

The book has sold over a million copies. Warren Buffet says he's read it at least four times. I've only read mine once (it's the second edition, published in 1940, with 851 pages), but it remains a valuable reference. You can buy a fancy new leather-bound sixth edition on Amazon for \$132. Or you can get a used one for \$31. Or buy the Kindle electronic version for \$42.53.

Or, you could simply read Graham's second book, the more user-friendly "The Intelligent Investor," which was published in 1949 and is less than half the size of its predecessor.

I recommend them both.

In 1950, a fellow named Warren Buffett enrolled in graduate school at Columbia to study under Graham, and he learned well. In fact, Buffett has often said that after his father, Benjamin Graham was the most important influence in his life.

Benjamin Graham passed away in 1976 at the age of 82.

So what is it that made Graham's work so special?

In short, he systematized the entire process of evaluating companies, all with the goal of finding low-risk (or no-risk) investments that would reward over the long run.

Graham liked to analyze -- and quantify -- a business according to six factors.

1. Profitability 2. Stability 3. Growth in earnings 4. Financial position 5. Dividends 6. Price history

More precisely, he required that a potential investment have the following:

1. An earnings-to-price yield at least twice the AAA bond yield.
2. A P/E ratio less than 40% of the highest P/E ratio the stock had over the previous five years.
3. A dividend yield of at least two-thirds the AAA bond yield.

4. A stock price below two-thirds of tangible book value per share.
5. A stock price below two-thirds of "net current asset value."
6. Total debt less than book value.
7. Current ratio greater than two.
8. Total debt less than twice "net current assets."
9. Annual earnings growth in the prior 10 years of at least 7% annual compounded.
10. No more than two declines of 5% or more in year-end earnings in the prior 10 years are permissible.